

Chorus II Low Volatility Portfolios

Quarterly commentary as of March 31, 2021



Market overview

Market performance as of March 31, 2021

	3 months	1 year	3 years	5 years	10 years
Fixed Income					
FTSE Canada Universe Bond Index	-5.04	1.62	3.77	2.83	3.98
Bloomberg Barclays Multiverse Bond Index (CAD-hedged)	-2.40	2.14	3.83	3.03	4.20
Growth					
MSCI Canada Index (total return)	8.12	40.64	8.64	9.00	5.05
MSCI USA Index (CAD) (total return)	3.95	40.01	15.80	15.42	16.32
MSCI EAFE Index (CAD) (total return)	2.09	27.66	5.13	8.23	8.26
MSCI Emerging Markets Index (CAD) (total return)	0.91	39.86	5.58	11.43	6.34
MSCI ACWI ex CANADA IMI (CAD) (total return)	3.60	38.97	11.01	12.67	12.28

Sources: Desjardins Investments Inc., Morningstar Inc.

Comments on market performance

- The global economy continues to move in tandem with COVID 19 pandemic developments. The decline in cases in many countries early in the year, the faster pace of vaccination programs and greater than anticipated economic resilience have helped brighten the economic outlook, fuelling gains in major equity markets worldwide.
- This improvement has also sparked fears of accelerating inflation, particularly on the back of rising commodity prices. Dampening bond markets reflect growing fears of a more rapid tightening of monetary policy.
- Markets remain cautious as a third wave of the pandemic is hitting many countries.
- In Canada, the faster than expected pace of domestic economic growth in the past quarter and the sharp rise in oil prices galvanized the Canadian stock market, up 8.1% for the quarter.¹ Like a number of other central banks, the Bank of Canada has maintained very favourable financing conditions to help the economy weather the pandemic. However, it has shown a little more openness to tuning the pace of its asset purchases to the strength of the recovery. Accordingly, the FTSE Canada Universe Bond Index returned 5% for the quarter.
- In the United States, the US government's \$1.9 trillion aid package and a fast paced vaccination campaign have sweetened the country's economic outlook. Driven by gains in the industrial and financial sectors, the MSCI USA Index in Canadian dollars (total return) added 4.0% during the quarter. On the bond front, the Federal Reserve continues to adopt a very cautious tone on economic growth, emphasizing labour shortages and downplaying inflationary risks.
- With an updraft from domestic monetary policy and rising commodity prices, the Canadian dollar appreciated against most foreign currencies, including the US dollar, trimming returns on foreign currency denominated assets.

¹ Based on the MSCI Canada Index quarterly return (total return).

Portfolio performance (A-Class) as of March 31, 2021

	3 months	1 year	3 years	5 years	10 years	Since start of operations	Start date of operations
Chorus II Conservative Low Volatility	-2.22	-2.22	10.13	3.23	3.36	3.90	2011/11/28
Chorus II Moderate Low Volatility	-1.37	-1.37	12.19	3.41	3.84	4.55	2011/11/28
Chorus II Balanced Low Volatility	-0.12	-0.12	15.12	3.92	4.45	5.24	2011/11/28

In contrast with the indexes, portfolio return is established net of fees and expenses.

Sources: Desjardins Investments Inc.

Comments on portfolio performance as of March 31, 2021

Fixed Income (A-Class return)

- It was a challenging quarter for Canadian and global bond funds, which posted negative returns (-0.97% to -5.25%), with the exception of the Global High Yield Bond Fund (1.29%).
- The 3 Canadian bond funds detracted from low volatility portfolio returns. Overall, foreign bonds had a lesser adverse effect.
- The Canadian Bond Fund (-5.17%) and the Global Corporate Bond Fund (-3.32%) were the top detractors from portfolio returns.
- Echoing the trend from the past quarter, credit spreads continued to tighten. A robust recovery makes bonds less attractive as interest rates have risen rapidly on fears of rising inflation. The bond market is notably experiencing a period of unusual volatility, due to the special circumstances we live in which combine a strong growth economy with a government obliged to assist people unable to work due to COVID 19.
- The Global High Yield Bond Fund was up 1.29% in the past quarter.

Growth (A-Class return)

- Growth equity funds have mostly posted positive returns, including 14 out of 16 funds and ETFs, ranging from 0.44% to 16.62%. Conversely, some foreign funds including American equity growth, overseas and global issues produced negative returns ranging from -0.33% to -5.16%.
- The Low Volatility Canadian Equity Fund (4.45%) and the American Equity Value Fund (9.20%) were the top contributors to portfolio returns. The Canadian Equity Value Fund stood out with a return of 13.09% and ranks among the best in its class (fifth percentile).
- Positive contributions from the Canadian equity class were by far the quarter's largest. American and global small cap equities also contributed significantly. The very strong performance stemmed from Canada's energy, financial services and consumer discretionary sectors.
- The Low Volatility Global Equity Fund and Overseas Equity Fund reduced portfolio returns. Stock selection in the real estate, materials, technology and consumer staples sectors was responsible for this underperformance.
- The *style factors* that had the greatest positive impact on the portfolios were *value (developed countries)* and *dividend income (emerging markets)*. Conversely, *momentum* and *growth* factors were unfavourable in all markets.

Contribution to portfolio performance (A-Class) as of March 31, 2021

	Fixed income	Growth	Tactical asset allocation
Chorus II Conservative Low Volatility	---	++	+
Chorus II Moderate Low Volatility	---	++	+
Chorus II Balanced Low Volatility	--	++	+

Comments on portfolio tactical asset allocation as of March 31, 2021

- Lazard Asset Management's tactical allocations generated a slight increase in value compared with neutral allocations (0.13% to 0.17%) for the quarter.
- The changes in allocations reflect a greater conviction and optimism for growth.
- This position favours risk taking with an overweight in equities ranging from 3.16% to 3.44%.
- We continued to rotate out of Canadian bonds and into Canadian equities and global small cap equities.

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